

Message Text

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 9915

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C O N F I D E N T I A L LIMA 3865

FOR UNDER SECRETARY MAW; ARA-WILLIAM ROGERS; L-LEIGH; L/ARA-KOZAK; TREASURY-BUSHNELL; EB-GREENWALD, S/P-LORD

EO 11652: GDS

TAGS: EINV, EIND, EMIN, PFOR, PE

SUBJECT: MARCONA NEGOTIATIONS - SITUATION ON MAW'S DEPARTURE

1. SUMMARY: LONG DAY'S NEGOTIATIONS WITH PRIME MINISTER AND KEY CABINET MEMBERS ENDED AT MIDNIGHT WITH DEPARTURE FROM LIMA OF UNDER SECRETARY MAW AND ADVISER ALBERT FISHLOW. LUNCH WITH PRIME MINISTER, FOREIGN MINISTER, AND MINISTERS MINING, COMMERCE, AND TRANSPORT REVEALED GOP HOPE U.S. WOULD YIELD ON MANY CONTROVERSIAL ASPECTS OF IN-PRINCIPLE AGREEMENT, INCLUDING PELLET DELIVERY SCHEDULES, EXTENT OF MARCONA MARKET ACCESS, AND INCLUSION OF 3.1 MILLION TON MARCONA PELLET PURCHASE IN \$12 MILLION TRANSPORT COMPENSATION PACKAGE. AT DINNER, UNDER SECRETARY MAW AND COMMERCE SECRETARY ARIAS HAMMERED OUT POSSIBLE COMPROMISE. TEAM MEMBERS EINAUDI, GANTZ, AND MARESCA REMAINED TO RECEIVE GOP REACTION AND ASSIST MARCONA IN CONTRACT NEGOTIATIONS IF GOP ACCEPTS THE COMPROMISE.
END SUMMARY

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2. APRIL 26 ROUND BEGAN WITH MORNING SESSION WITH MARCONA

TEAM (FURTH, BRADFIELD, BILHORN), DURING WHICH FURTH REPORTED LITTLE FLEXIBILITY ON PART BARANDIARAN (CPV) AND RUBINA (MINPECO) ON AFFREIGHTMENT AND PELLET SALES CONTRACTS RESPECTIVELY. FURTH INSISTED THAT, WHILE MANY TECHNICAL DETAILS SUSCEPTIBLE OF BEING WORKED OUT, BASIC ISSUES, E.G. PELLET DELIVERY SCHEDULE, PELLET QUALITY, ACCESS TO NORTH AMERICAN MARKET, AND INCLUSION OF THE 3.1 MILLION TONS OF PELLETS BEING PURCHASES BY MARCONA IN THE \$12 MILLION COMPENSATION PACKAGE IN FREIGHT CONTRACT, COULD BE DECIDED ONLY BY POLITICAL LEVEL, I.E., THE PRIME MINISTER AND HIS KEY CABINET COLLEAGUES.

3. UNDER SECRETARY MAW AND U.S. GROUP THEN LUNCHEd WITH PRIME MINISTER FERNANDEZ MALDONADO AND KEY MINISTERS-- MINISTER OF COMMERCE ARIAS, FOREIGN MINISTER DE LA FLOR, MINISTER OF TRANSPORT GARCIA VARGAS, MINISTER OF MINES LA TORRE DE TOLLA, REPRESENTATIVES FO GOP AGENCIES WORKING ON MARCONA CONTRACTS (BARANDIARAN OF CPV AND RUBINA OF MINPECO), GOP COMMISSION MEMBERS AMBASSADOR DE LA PUENTE AND BROUSSET, AND OTHERS. AFTER EXCHANGE OF PLEASANTRIES, IT BECAME CLEAR THAT, POSSIBLY THROUGH A COMBINATION OF CIRCUMSTANCES (E.G INCOMPLETE BRIEFINGS, GOP RELUCTANCE TO FACE UP TO CONSEQUENCES OF EARLIER AGREEMENT WITH MAW), PRIME MINISTER AND HIS AIDES WERE NOT PREPARED TO MAKE CONCESSIONS NEEDED TO IMPLEMENT SETTLEMENT. AT WORKING SESSION AFTER LUNCH, FOR EXAMPLE, MINISTERS OF COMMERCE AND TRANSPORT RESISTED EXCLUSION OF 3.1 MILLION TON MARCONA PURCHASES FROM \$12 MILLION TRANSPORT COMPENSATION PACKAGE, AND MAINTAINED RELATIVELY SHORT TIMETABLE FOR LIFTING 3.1 MILLION TONS OF PELLETS WHICH MARCONA WAS WILLING TO BUY. ATMOSPHERE WAS CONTROLLED BUT ACRIMONIOUS, PARTICULARLY WITHIN PERUVIAN DELEGATION, SOME OF WHOSE TECHNICIANS CLEARLY FELT BETRAYED BY THEIR MINISTERS' ORIGINAL CONCESSIONS TO MAW. NO AGREEMENT REACHED.

4. PREVIOUSLY SCHEDULED DINNER AT ARIAS' HOME MONDAY EVENING TOOK PLACE AS PLANNED DESPITE ABRUPT END TO AFTERNOON MEETINGS. WHEN DISCUSSIONS FINALLY TURNED TO THE BUSINESS AT HAND IT BECAME OBVIOUS THAT GOP HAD NOT BEEN SUCCESSFUL IN REGROUPING SO AS TO TAKE ADVANTAGE OF

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MR. MAW'S LAST FEW HOURS IN LIMA. ARIAS OBVIOUSLY HAD NO AUTHORITY TO NEOGITATE BEYOND POSITIONS TAKEN EARLIER IN THE DAY, AND LAST MINUTE EFFORTS TO REACH THE PRIME MINISTER WERE FRUITLESS: HE WAS OUT.

5. ARIAS, HOWEVER, MADE IT CLEAR THAT HE WANTED TO BREAK THE LOGJAM AND WAS PREPARED TO PRESENT TO THE MINISTERS A PACKAGE THAT COULD BE THE BASIS OF AN AGREEMENT. HE

AND MR. MAW DEVELOPED A COMPROMISE PACKAGE THAT ARIAS AGREED TO FIGHT FOR. IN ESSENCE, THIS PACKAGE TRANSFORMS MARCONA'S TWO YEAR OPTIONS INTO A FIRM CONTRACT TO BUY IN RETURN FOR AN OVERALL ORE CONTRACT RUNNING UNTIL THREE YEARS FROM THE DATE OF SETTLEMENT; FULL MARCONA ACCESS TO U.S. MARKET EXCEPT FOR BRIDGETOWN; AND AN UP TO THREE-YEAR FREIGHT CONTRACT YIELDING \$12 MILLION IN COMPENSATION AT A RATE OF APPROXIMATELY \$1 PER TON WITHOUT INCLUDING MARCONA'S OWN ORE PURCHASES.

6. ARIAS INDICATED THAT HE WAS NOT PREPARED TO DISCUSS THE FINANCING ISSUE, AND IT WAS AGREED THAT THE AMBASSADOR AND REMAINING MEMBERS OF THE GROUP WOULD DISCUSS FINANCE QUESTION WITH FINANCE MINISTER BARUA TUESDAY. NOR WAS THE \$3.6 MILLION ON THE BOOK VALUE MENTIONED. ARIAS SAID HE WOULD ENDEAVOR TO SEE THE OTHER MINISTERS AROUND NOON ON TUESDAY AND REPORT BACK TO THE AMBASSADOR WHETHER THE PACKAGE WAS ACCEPTABLE. IF THE ANSWER WAS POSITIVE, THE GOP WOULD INSTRUCT CPV AND MINPECO, AND THE USG MARCONA, OF THE RESULTS. MR. MAW AGREED THAT EINAUDI, GANTZ AND MARESCA WOULD REMAIN IN LIMA ANOTHER 24 HOURS FOR THIS PURPOSE.

7. COMMENT: U.S. GROUP STRONGLY BELIEVES GOP HAS MADE THE DECISION TO SETTLE ALONG LINES OF PACKAGE NEGOTIATED SEVERAL WEEKS AGO WITH MR. MAW. HOWEVER, THERE IS STILL CONSIDERABLE DOUBT WHETHER THEY WILL BE ABLE TO GET IT TOGETHER IN TIME. IF ARIAS COMES THROUGH, WE BELIEVE MARCONA CAN WRAP UP BASIC OUTLINES OF THEIR CONTRACTS(EVEN WITHOUT DIRECT USG PARTICIPATION), DESPITE THE FACT THAT ADDITIONAL ELEVENTH HOUR PROBLEMS COULD BE RAISED.

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